

Montana Board of Housing Annual Report Fiscal Year 1996-97



Governor Racicot, left, with Montana's outstanding affordable housing builder, Jeff Engle and family

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Bob Morgan, left, Single Family Program Manager, with outstanding rural lender Alan Holom of, Stockman's Bank.



Doug and April McGrail with their children and Bill Oser, MBOH, outside their home, which was purchased with an MBOH and FHA loan.

Further information on our programs may be obtained by writing:
Montana Board of Housing
836 Front Street
PO Box 200528
Helena, MT 59620-0528
or by telephoning (406) 444-3040

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INTRODUCTION

The Montana Board of Housing was created by the Montana Housing Act of 1975. The Board is an agency of the State and operates within the Department of Commerce for administrative purposes. As of June 1, 1995, the Board is attached to the Housing Division within the Department of Commerce, and the Board's Executive Director is also the Administrator of the Housing Division. Under the Housing Act the Board does not receive appropriations from the State's general fund and is completely self-supporting. Substantially all of the funds for Montana Board of Housing operations and programs are provided by the private sector through the sale of tax-exempt bonds.

Montana Board of Housing's public purpose is to provide decent, safe, sanitary and affordable housing for lower income individuals and families in the State of Montana. Montana Board of Housing accomplishes this purpose by issuing tax-exempt bonds, administering federal housing programs and working in partnership with many other housing providers throughout Montana.

TABLE OF CONTENTS

	Page
The Board	2
The Staff	3
Chairman and Executive Director's Message	4
Economic Benefits	7
Single Family Programs	7
Single Family Mortgage Program	7
Recycled Single Family Mortgage Program	7-10
Homebuyers Cash Assistance Program	10
Number of Mortgage Loans Purchased	
By County [TABLE]	11
Accounting & Reporting	12
Multifamily Programs	12
Multifamily Rental Program	13
Low Income Housing Tax Credit Program	14
Reverse Annuity Mortgage Loan Program	15
Financial Report	Appendix A

MONTANA BOARD OF HOUSING
P.O. Box 200528
HELENA, MONTANA 59620-0528
(406) 444-3040

THE BOARD

The powers of the Board are vested in a seven member Board, appointed by the Governor, subject to the confirmation of the State Senate. The majority of the board members' terms coincide with the four-year term of the Governor; the remaining board members serve four-year terms which expire in the middle of the Governor's term. The Chairman of the Board is appointed by the Governor and other officers of the Board are elected by the board members. Each Board member serves until a successor is appointed and confirmed by the State Senate.

The Board provides policy direction to the agency staff, authorizes bond issues, approves development financing and evaluates Montana Board of Housing Programs. The commitment of time and energy by Board members has resulted in an improved quality of life for thousands of Montana citizens. Their leadership is vital to the Montana Board of Housing's ability to meet Montana's housing needs.

In fiscal year 1996-97 the Board provided over \$100 million in single family mortgage financing, helping 1,569 families obtain the dream of home ownership. The Board also allocated \$1,712,652 in Low Income Housing Tax Credits for 446 units of rental housing.



Back row, left to right: William Oser, Tom Welch, Bob Savage; Front row, left to right: Ronda Carpenter, Waneeta Farris, Bob Thomas, Barbara Hamlin.

BOARD MEMBERS

Bob Thomas, Chairman owns an insurance agency in Stevensville, Montana. Bob has served on the Board for 8 years, and has been Chairman for 4.

Robert Savage, Vice Chairman has a Bachelor of Arts degree and a Doctor of Jurisprudence degree from the University of Montana. Bob is currently a partner in the law firm of Habedank, Cumming, Best & Savage in Sidney, Montana. Bob has served on the Board since 1993, and is also a director and secretary of the National Conference of State Housing Boards, Washington, D.C.

William Oser, Secretary, C.L.U. has lived in Montana and Wyoming most of his life, working for the Bureau of Reclamation and Shell Oil before going in to the insurance business in 1960, from which he retired in 1992. Bill is actively involved in the business community in Billings, Montana, and has been President of the Company Stores for 20 years. Bill has served on the Board since 1993.

Waneeta Farris is Branch Manager of Norwest Bank in Forsyth, Montana. She has been with the bank since it opened in 1983. Waneeta has served on the board since 1995.

Barbara Hamlin and her husband Jerry are Broker/Owners of State Capitol Realtors in Helena, Montana. Barbara is a graduate of Carroll College and has been active in the real estate profession for 10 years. Barbara has served on the Board since 1994.

Tom Welch is the Chief Executive Officer and President of Pioneer Federal Savings and Loan in Dillon, Montana. He is a Montana native who is a graduate of the University of Montana and is active in a wide variety of local community activities and organizations. Tom has served on the board since March 1997.

Ronda Carpenter and her husband own and manage 20 units of rental property in Great Falls, Montana. Ronda is active in landlord associations and is Executive Director of Montana Housing Providers. Ronda teaches courses in property management and does property management consulting. Ronda has served on the Board since March 1997.

DEPARTMENT OF COMMERCE



Peter S. Blouke, PH.D., was appointed Director of the Montana Department of Commerce by Governor Marc Racicot in January 6, 1997. He brings to Commerce over 20 years experience working in a variety of key administrative positions for the state, including responsibility for consolidating state health and human services programs into the largest agency in state government. Dr. Blouke received his masters and Ph.D. in experimental psychology from the University of Alabama.

LEGAL AND PROFESSIONAL SERVICES

BOARD GENERAL COUNSEL:

Luxan and Murfitt — Helena, MT

INDEPENDENT AUDITOR:

Legislative Audit Division — Helena, MT

BOARD BOND COUNSEL:

Kutak Rock — Omaha, NE

INVESTMENT BANKING TEAM:

Paine Webber Inc. — San Francisco, CA

D. A. Davidson and Co. Inc. — Great Falls, MT

Dain Bosworth, Inc. — Minneapolis, MN

Merrill Lynch Capital Markets — New York, NY

Piper, Jaffray Inc. — Minneapolis, MN

TRUSTEES:

First Trust Company of Montana, N.A.

Norwest Bank, National Association

MONTANA BOARD OF HOUSING STAFF

EXECUTIVE:



Left to right: Maureen Rude, Executive Director; Diana Hall, Administrative Assistant.

ACCOUNTING:



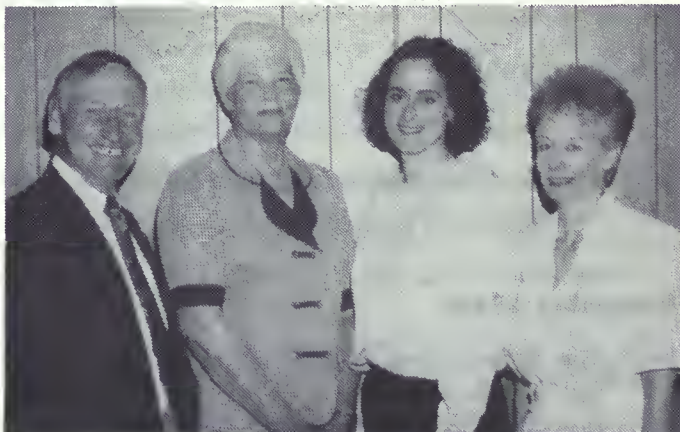
Back Row—left to right: N. J. McCullough, Accounting Technician; Dolly Snyder, Assistant Accounting and Finance Manager; Jenny Bloom, Accounting Technician; Kathle Schindler, Temporary Accounting Technician; Front Row—left to right: Diana Hoy, Accounting Technician; Kurt Lewis, Accountant; Kelly Rusoff, Accounting and Finance Manager.

MULTIFAMILY PROGRAM:



Left, Bruce Brensdal, Multifamily Program Manager; Right, Connie Boyer, Program Specialist

SINGLE FAMILY PROGRAM:



Left to right: Bob Morgan, Single Family Program Manager; Meredith Miller, Program Specialist; Lore Perrina, Program Specialist; Mary Bair, Program Specialist

CHAIRMAN AND EXECUTIVE DIRECTOR'S MESSAGE

TO THE HONORABLE MARC RACICOT, MEMBERS OF THE STATE LEGISLATURE, MEMBERS OF CONGRESS, BONDHOLDERS, LENDERS, REALTORS, AND HOUSING PROVIDERS:

Representing the Montana Board of Housing (MBOH), we are pleased to report on the agency's activities and accomplishments for Fiscal Year 1996-97. It was a busy year, with a year-end highlight celebrating "Montana's Home ownership Partnership" on June 10, 1997.

The pages of this report provide insight into the production levels of MBOH single family and multifamily programs. Highlights of the MBOH for the fiscal year are:

July 1996:

- **The Board established a "bridge" program, using recycled mortgage funds to bridge between the expiration of the 1995 Series B bond issue and a 1996 bond issue. This action continued the Board's goal of providing perpetual funds for its single family program.**
- The Board approved set-asides of single family recycled mortgage funds for the Kings Green Project in Billings, Neighborhood Housing Services in Great Falls, and approved additional funds for the Rural Development/MBOH/FHA Loan Leveraging program.

August 1996:

- The Board approved Little Horn State Bank as a new lender and servicer for its single family programs.
- The Board made a conditional commitment of funds to Western Montana Mental Health Center for 20 units of rental housing for low income mentally ill residents.

September 1996:

- The Board issued its \$65 million 1996 Series A Single Family bond issue, making available approximately \$60 million for the purchase of mortgage loans.
- The Board approved Low Income Housing Tax Credit projects in Chester (6 units), Billings (9 units), Pablo (20 units) and Missoula (70 units).
- Board members and staff attended the first ever Statewide Housing Conference in Billings. The Board provided staff support on the steering committee, acted as panelists, and attended work sessions for two days.

October 1996:

- The Board received an unqualified opinion on its Fiscal Year 1995-96 financial report.
- The Board approved a set-aside of single family recycled mortgage funds for the Ronan Housing Authority (20 homes).

November 1996:

- The Board issued its \$890,000 1997 Series A Multifamily Program bonds to finance a mortgage on the West Babcock Apartments in Bozeman. This was the Board's first closing under the HUD/Housing Finance Agency Risk-Sharing insurance program.

December 1996:

- The Board celebrated its partnership with the Federal National Mortgage Association (Fannie Mae), at the home of Doug and April McGrail. The McGrail's home loan was purchased by the Board with funds obtained by the sale of tax-exempt bonds, of which Fannie Mae has been a major purchaser.
- The Board approved First National Bank of Montana in Butte as a new lender and servicer for its single family programs.
- The Board held the first meeting of its "Working Group", a group of public and private individuals exploring topics related to affordability of housing from the construction and regulatory side.

January 1997:

- The Board instituted an emergency Request for Proposals for Trustee Services for its Single Family II through X Indentures due to the sale of the First Interstate Bank/Wells Fargo Trust Department to Bank of New York.
- The Board approved a set-aside of single family recycled mortgage funds for the City of Billings (10 homes).

February 1997:

- The Board interviewed two Trustee candidates and selected First Bank, National Association (First Trust Company of Montana, N.A.) as its new Trustee for Single Family II through X Indentures.

March 1997:

- Governor Marc Racicot appointed two new Board members, Tom Welch of Dillon and Ronda Carpenter of Great Falls.
- The Board and First Trust completed the transfer of all records to First Trust.
- Changes to the Reverse Annuity Mortgage Program were approved by the Legislature, giving the Board the ability to make some exceptions to the age limit of 68, allowing small existing liens to be paid off with the lump sum payment, and allowing financing of condominiums.
- The Board made a permanent loan commitment to Western Montana Mental Health Center for its 20 unit River House project in Missoula. The Board also gave preliminary commitments under the Risk Sharing Program to District XI Human Resource Council in Missoula for the 24 unit Parkside Apartments, and to Bozeman Interfaith Housing for its 10 unit Pond Row project.
- The Board's "Working Group" issued a Request for Proposal for a study on building code modifications which would reduce the cost of construction practices, without affecting health and safety.

April 1997:

- The Board approved Low Income Housing Tax Credit projects in Hamilton (four projects totaling 93 units), Absarokee (32 units), Butte (36), and Red Lodge (32 units).
- The Board received a General Obligation Rating of A2 from Moody's Investors Service.
- The Board added an additional \$500,000 to the set-aside for the Rural Loan Leveraging Program.
- Board staff participated in combined application workshops along with the HOME and CDBG programs.

May 1997:

- The Board approved a set-aside of single family recycled mortgage funds for the City of Laurel for 30 homes.
- The Board held a public information session in Hamilton.
- Board staff made presentations to the Montana Bankers Association Retail Bankers meeting.

June 1997:

- The Board issued its 1997 Series A Single Family Program Bonds in the amount of \$91,360,000. The bond issue made available approximately \$60 million for the Single Family Program, with an additional \$6.75 million in recycled funds for set-aside programs. As part of the bond issue, the Board restructured its 1977 Single Family I indenture and refunded five series of bonds within the indenture.
- The Board, in partnership with Governor Marc Racicot and the U.S. Department of Housing and Urban Development held a signing ceremony for the *Montana Home ownership Partnership*, affirming commitments between partners to the expansion of Home ownership opportunities within the State of Montana. In addition, Governor Racicot presented Montana Affordable Housing Awards to Western Federal Savings in Missoula as the outstanding metropolitan lender, Stockman's Bank in Miles City as the outstanding rural lender, Rose Gehl of Great Falls as the outstanding metropolitan Realtor, Jennifer Hutter of Libby as the outstanding rural Realtor, and to Jeff Engle of Billings as the outstanding builder.
- The Board approved a Low Income Housing Tax Credit project in Big Sky (24 units).
- The Board changed the Cash Assistance Program (CAP) to address the state's changing housing environment. Changes included increasing allowable family liquid assets to \$5,000, and increasing to \$2,500 the amount of cash assistance on each loan (or 50% of the total needed to close the loan, whichever is less).
- The Board set-aside an additional \$1 million for the Rural Loan Leveraging Program.
- The Board approved expansion of the Neighborhood Housing Services set-aside to include counties surrounding the Great Falls area (Cascade, Pondera, Teton, Toole, Glacier, Liberty, Hill, Choteau, Blaine and Phillips counties).
- The Board approved a set-aside of single family recycled mortgage funds for the Richland County Housing Authority (3 homes).
- The Board held a public information session in Helena.

In calendar year 1996, the Board financed one out of every six homes sold in the state, up from one in 10 six years ago. Eighteen percent of the loans were made from recycled funds and in combination with other programs, for projects targeting a lower income population than the Board can reach with its bond program alone. Although the Board share of loans has increased, Montana has dropped from 12th to 20th in terms of Home ownership rate in the past five years. The Low Income Housing Tax Credit provided subsidy through the Internal Revenue Code on over 50% of the multifamily units built in the state from 1990-1996.

While the financing the Board provides helps make housing affordable for many people, rising costs and static wages make it increasingly more difficult for low and moderate income people to find affordable, safe and sanitary housing. The Board and staff of the Board are committed to pursuing any avenue to make housing more affordable for low and moderate income Montanans. The Board is constantly looking at new programs and making changes to its current programs. The Board receives no state or federal funds to operate its programs, so the Board has tried to manage its money in an aggressive manner to capitalize on every possible dollar of funds for programs.

The Board relies heavily on partnerships with other federal agencies (Housing and Urban Development, Rural Development, Federal Housing Administration) as well as Lenders, Realtors, non-profits, and local governments. We would like to take this opportunity to thank these partners in meeting the housing needs of the state's low and moderate income residents. We thank the staff of the Board, as well as our professional staff, for their diligent work to make our programs successful. We also thank Paul Bankhead and Mike McKee for their service to the Board and the State of Montana.

Bob Thomas

Bob Thomas, Chairman

Maureen J. Rude

Maureen J. Rude, Executive Director



Governor Racicot, left, presents the "Outstanding Metropolitan Lender" award to Charlie Eiseman of Western Federal Savings of Montana.

ECONOMIC BENEFITS OF BOARD OF HOUSING PROGRAMS

In July of 1996, the Department of Commerce published a study "Economic Benefits of MDOC Housing and Infrastructure Program Activities". The study provided information on the economic benefits for each of the housing programs in the Department, including the MBOH. The MBOH programs have provided an input into the economy (through the sale of bonds and the issuance of Low Income Housing Tax Credits) from 1990 through mid-1996, of almost \$309 million. This has resulted in the following:

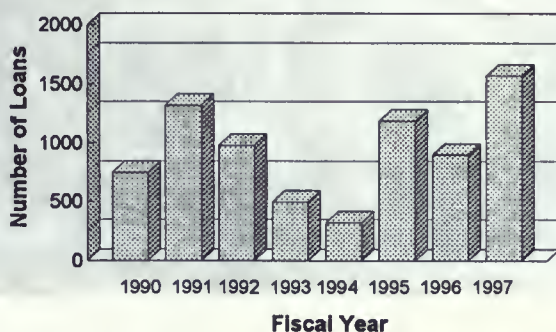
- \$107,369,637 of basic and non-basic income generated. As program funds are spent, a portion of these funds become earnings for the "basic" workers; workers spending the basic income causes a predictable amount of non-basic employment and income. These two spending categories total the income generated from the program.
- 5,027 jobs created.
- \$3,420,388 paid in income taxes by workers because of MBOH housing programs (i.e., construction trades, banking, realty).
- \$46,569,232 in property taxes paid by property owners for housing built and purchased with the Board's programs.

For more detailed information on this study, please contact the MBOH at 444-3040 for a copy of the complete study.

SINGLE FAMILY PROGRAMS

The Board, during the course of Fiscal Year 1997, offered the Single Family Mortgage Program, the Recycled Single Family Mortgage Program, and the Home Buyers Cash Assistance Program. Over the past 20 years the Board has helped over 25,000 individuals and families become homeowners.

This year the MBOH Single Family Programs purchased a record number of loans: 1,569.



SINGLE FAMILY MORTGAGE PROGRAM

The home financing program is exclusively supported from the sale of tax-exempt Mortgage Revenue Bonds issued periodically by the Board. The tax-exempt status allows the agency to pass along the interest savings to lower income persons and families in the form of low-interest home loans.

Mortgage loan applications are originated and processed in compliance with FHA, VA or the Rural Development (RD) Guaranteed Rural Housing Loan Program underwriting criteria by Board-approved Montana real estate lenders. The person or family reserves mortgage funds through an approved lender on a first-come first-serve basis with the Board.

The FHA insured, VA guaranteed or RD guaranteed mortgage is generally made for a term of 30 years. The mortgage interest rate is determined by the price the Board must pay to investors on the tax-exempt bonds. Each person or family, in addition to qualifying under the FHA, VA or RD requirements, must also meet certain program loan requirements and Federal Eligibility Requirements. Generally, the requirements for each person or family are as follows:

- the home is to be owner-occupied with limited business use of the property;
- the purchaser is to be a first-time home buyer except for certain targeted areas;
- the purchase price of an existing home may not exceed the FHA maximum mortgage limit for the area (or \$100,000 if the FHA maximum is higher than \$100,000);
- family income may not exceed income limitations as established by the Board;
- the refinancing of an existing home loan is not permitted.
- The acquisition cost of a new home (lot, well, septic, construction cost) cannot exceed 135% of the FHA maximum mortgage limit for the area (maximum of \$135,000). The loan amount cannot exceed the FHA maximum mortgage limit for the area (maximum \$100,000).

During the Fiscal Year ended June 30, 1997 the Board originated over \$100 million in mortgages, assisting 1,569 Montanans with home ownership. 1,232 of the mortgages were made with new bond funds, and 337 with recycled funds.

RECYCLED SINGLE FAMILY MORTGAGE PROGRAM

The Board has made additional mortgage funds available through the recycling of mortgage prepayments and other funds held under prior bond issues of the Single Family Mortgage Program. The Board's goal with the recycled funds is to assist those lower income persons and families which do not have the financial capabilities to purchase a safe and sanitary home through other Single Family Programs. Applications for recycled fund set asides are submitted through the Board's "Request for Proposal" process, on a monthly basis.

CITY OF BILLINGS AFFORDABLE FIRST-TIME HOME BUYERS PROGRAM

The Board set aside \$5,000,000 in recycled mortgage funds to provide the permanent financing for first-time home buyers in the city of Billings whose incomes do not exceed 60% of the median and for one reason or another do not qualify for traditional financing without assistance. The City of Billings will provide assistance for down payment, closing cost, mortgage buy down, and minor home repairs for low income individuals who are currently unable to become homeowners. The City of Billings funds are provided through the Federal HOME Program under which the City is an entitlement community. This program has provided financing for 113 homebuyers, whose average income was \$18,768, with an average permanent loan amount of \$50,969 in fiscal year 1997. The Board set aside an additional \$2,000,000 for this program for fiscal year 1998.

BUTTE-SILVER BOW TULLAMORE PROJECT

The Board set aside \$1,578,000 in recycled mortgage funds, with \$789,000 for the first phase, to provide the permanent financing for 24 single family homes in the Tullamore Project for low income individuals in Butte who can not qualify for a mortgage loan without assistance. The City of Butte has provided \$130,142 in cash, 8 acres of land in the Centerville area in downtown Butte for the project, and will provide \$67,200 in tax abatement to the home buyers. The City has been awarded a \$540,000 grant from the HOME Program to finance the infrastructure and provide down payment, closing cost, and mortgage buy down assistance. They have also received a \$120,000 grant from the Federal Home Loan Bank to provide additional assistance in order to target low and very low income individuals for the project. The water, sewer, utilities and streets have been completed. Construction of six homes is scheduled for the last half of Calendar year 1997.

CITY OF KALISPELL AFFORDABLE FIRST-TIME HOME BUYERS PROGRAM

The Board set aside \$1,628,000 in recycled mortgage funds to provide the permanent financing of 24 three and four-bedroom units in the City of Kalispell's South Woodland Avenue Project and \$1,058,000 in recycled mortgage funds to provide the permanent financing of 20 two-bedroom units in the City of Kalispell's South Meadows Project for low income first-time home buyers in the city of Kalispell. The City of Kalispell has been awarded \$800,000 from HOME and CDBG to develop the seven acre city-owned South Woodland Avenue site. The City will use \$200,000 in UDAG program income to finance the infrastructure on the South Meadows site. Additionally, the City will use a \$198,000 Federal Home Loan Bank grant to provide down payment and closing cost assistance to the home buyers. Infrastructure has been completed on both sites. Construction of 12 homes is scheduled to be completed the last half of calendar year 1997.

DISTRICT IX HUMAN RESOURCE COUNCIL'S LIVINGSTON LAND TRUST PROJECT

The Board set aside \$1,447,630 in recycled mortgage funds, with \$420,000 for the first phase, to provide the permanent financing of 22 single family townhouses for low income residents on a lease purchase arrangement with the District IX Human Resource Council. The City of Livingston has donated 17 acres of land for the project. The District IX Human Resource Council has been awarded \$400,000 from CDBG to finance part of the infrastructure for the project. They have been awarded \$432,000 from the HOME Program for partial funding of the infrastructure and to provide down payment, closing cost, and mortgage buy down assistance. They have also been successful in obtaining a low interest construction loan from the Local Initiatives Support Corporation (LISC) for \$300,000. Infrastructure has been completed, construction of 6 homes is scheduled to be completed the last half of calendar year 1997.



GLACIER AFFORDABLE HOUSING FOUNDATION

The Board set aside \$3,506,700 in recycled mortgage funds to provide the permanent financing for 60 single family homes in Flathead, Glacier, Lake and Yellowstone Counties for low and very low income individuals. The Foundation has been successful in obtaining a grant from the Federal Home Loan Bank for \$610,000 and grants from the HOME program totaling \$896,517 to provide down payment, closing cost, and mortgage buy down assistance. The Foundation also received CDBG grants totaling \$400,000 to provide additional assistance to low and very low income individuals.

This program has provided financing for 41 homebuyers, whose average income was \$19,507, with an average permanent loan amount of \$52,480. The Board set aside an additional \$2,443,300 for loans in Lincoln and Sanders Counties.

HUD SECTION 184 INDIAN HOUSING PROGRAM

The Board set aside \$1,000,000 in recycled mortgage funds to provide the permanent financing for single family homes located on trust land on an Indian Reservation that are guaranteed by HUD through Section 184 for Native Americans. The Board worked with local banks, Tribal representatives, Bond Counsel, and State and Regional HUD officials to get special consideration and guarantees from the Secretary of HUD in Washington D.C. to enable the Board to participate in this program. The Board has purchased four loans where one of the residences is located on the Blackfeet, and three on the Flathead reservation.

RONAN HOUSING AUTHORITY

The Board set aside \$113,200 in recycled mortgage funds to provide the permanent financing for a four-plex to provide rental housing for seniors and handicapped individuals and a single family unit to be rented to a low income family subsidized through the Housing Authority's Tenant Based Rental Assistance Program. The property has been purchased and a family is now living in the single family residence. The four-plex units are under construction.

The Board also set aside \$1,200,000 in recycled funds to provide the permanent financing for 20 single family homes in Lake County for low and very low income persons and families. Ronan Housing Authority was successful in obtaining a grant from the Federal Home Loan Bank for \$120,000. This program has provided financing for 8 homebuyers whose average income was \$18,996, for homes whose purchase price averaged \$50,700.

WESTERN MONTANA MENTAL HEALTH CENTER/DISTRICT XI HUMAN RESOURCE COUNCIL PROGRAM

Western Montana Mental Health Center and District XI Human Resource Council joined forces to construct low income and special needs housing in Missoula. The Board committed \$3,001,000 in recycled mortgage funds to be used to provide the permanent financing. The Board set aside \$171,000 for nine new one bedroom units to be occupied by chronically mentally ill individuals earning less than \$7,000 annually; \$1,330,000 for 27 new one, two and three bedroom units to be sold to individuals earning between \$12,350 and \$28,000 annually; and \$1,500,000 for 18 new two, three, and four bedroom townhouse units to be rented or sold to individuals with incomes ranging from 30% to 80% of median. This program has provided financing for 52 homebuyers, whose average income was \$18,462, with an average permanent loan amount of \$54,102 in fiscal year 1997.

DISABLED ACCESSIBLE AFFORDABLE HOME OWNERSHIP PROGRAM

The Board set aside \$9,050,000 to provide affordable architecturally accessible homes for people with permanent disabilities and mobility impairments. The Board has financed a total of 86 homes through June of 1997 with \$5,100,082 recycled mortgage funds. The average household income is \$16,916 with an average loan amount of \$59,303. Loans are distributed among twenty-one Montana Counties.

NEIGHBORHOOD HOUSING SERVICES, INC. OF GREAT FALLS (NHS)

NHS, a non-profit housing provider, has been in operation since 1980 and has had a major impact in revitalizing two neighborhoods in Great Falls. The Board began work with NHS in 1986, to offer affordable home ownership opportunities to lower income individuals and families in conjunction with NHS's neighborhood revitalization.

The Board has provided \$9,688,902 in permanent mortgages to date, and has committed an additional \$3,589,004 of recycled mortgage funds, since 1986, for nine separate low income home ownership programs sponsored by NHS. As of June 30, 1997, through the excellent partnership with NHS, over 201 individuals and families have achieved affordable home ownership, **with 41 of those becoming homeowners in Fiscal Year 1997.**



RICHLAND COUNTY FIRST-TIME HOMEBUYER PROGRAM

The Board set aside \$152,230 in recycled mortgage funds to provide the permanent financing of three newly constructed homes. The county will use \$155,176 of grant funds to provide down payment and closing cost assistance, and buy down the construction cost to provide affordable housing for homebuyers whose income is 65% or less of median income.

HOME BUYERS CASH ASSISTANCE PROGRAM

This program, initiated in May, 1991 by the Board, is targeted to assist those credit worthy persons and families lacking the financial resources to purchase a home under any other of the Board's home ownership programs. In order to be eligible for the program, the home buyers may not have annual income in excess of \$26,000 and the home's purchase price may not exceed \$70,000. Cash assistance of up to 50% of the minimum cash required to close a loan (maximum advance of \$2,500), combined with 6.25% 30 year mortgage money is available for eligible home buyers.

Through June 30, 1997, the Board provided financing for 402 home buyers, whose average income was \$18,296, with an average permanent loan amount of \$42,194 and an average cash assistance loan of \$672. **This program assisted 64 home buyers during Fiscal Year 1997.**

RURAL HOUSING LOAN LEVERAGING PROGRAM

The Board initially set aside \$659,200 of recycled funds at 6.0% interest for a proposal from Rural Development (RD) to leverage \$659,200 from RD with interest rates that range from 1.0% for borrowers whose income does not exceed 50% of the area median income, to 2.0% for borrowers whose income does not exceed 55% of the area median income, and to 3.0% for borrowers whose income does not exceed 60% of the area median income. In this program MBOH will purchase a first mortgage, (30 year, FHA insured, 6.0% rate) for half of the loan. RD will make a loan secured by a second mortgage at a 1.0%, 2.0%, or 3.0% rate for the other half of the loan. This program has provided financing for 82 homebuyers, whose average income was \$20,031, with an average permanent loan amount of \$35,876. Due to the success of the program, the Board set aside an additional \$2,500,000 and raised the income limits to 80% of the area median income for this program in fiscal year 1997.

CITY OF LAUREL FIRST-TIME HOMEBUYER PROGRAM

The Board set aside \$1,000,000 for permanent financing of homes for low and very low income homebuyers. The city of Laurel will use \$400,000 of grant funds from the Federal Home Bank Program, \$100,000 of Community Development Block Grant Funds and five city lots to provide affordable housing. The city will use approximately \$22,300 subsidy on each of 8 homes for homebuyers whose income is less than 50% of the area median income, \$13,583 subsidy on each of 12 homes for homebuyers whose income is between 50% and 65% of the area median income, and \$5,834 subsidy on each of ten homes for homebuyers whose income is between 65% and 80% of the area median income.



SINGLE FAMILY MORTGAGE PROGRAM LOANS PURCHASED BY COUNTY

<u>County</u>	<u>Number Of Loans Purchased</u>		<u>Original Loan Amount</u>	
	<u>Cumulative 4/1/77-FY97</u>	<u>FY97 Activity</u>	<u>Cumulative 4/1/77-FY97</u>	<u>FY97 Activity</u>
Beaverhead	88	5	\$ 3,834,236	\$ 350,233
Big Horn	62	5	2,601,160	232,964
Blaine	79	6	2,950,352	254,289
Broadwater	64	7	2,870,341	414,901
Carbon	73	3	3,138,356	183,966
Carter	1	0	18,000	0
Cascade	3,622	149	175,525,965	17,735,340
Choteau	32	6	1,195,167	225,668
Custer	482	30	17,196,755	1,248,898
Daniels	3	1	69,802	12,550
Dawson	301	18	11,470,401	696,168
Deer Lodge	158	8	5,298,394	402,446
Fallon	39	0	1,517,595	0
Fergus	138	10	4,945,557	460,803
Flathead	1,896	178	102,863,614	12,621,305
Gallatin	828	49	42,435,552	3,901,335
Garfield	3	0	80,550	0
Glacier	88	10	3,780,975	442,658
Golden Valley	5	1	193,771	41,922
Granite	8	1	290,008	29,258
Hill	580	54	26,039,903	2,961,291
Jefferson	111	5	5,540,227	272,892
Judith Basin	7	1	267,618	34,979
Lake	312	49	14,591,211	3,011,218
Lewis and Clark	1,500	101	73,495,476	7,417,819
Liberty	7	1	228,139	35,339
Lincoln	204	18	8,440,952	937,228
McCone	19	0	743,130	0
Madison	49	3	2,254,836	198,624
Meagher	42	3	1,565,343	180,300
Mineral	69	1	2,907,536	59,950
Missoula	2,972	180	161,656,292	12,929,652
Musselshell	25	1	1,038,627	49,340
Park	226	11	8,954,796	768,294
Petroleum	1	0	19,550	0
Phillips	34	3	1,369,085	139,969
Pondera	103	7	3,935,655	392,907
Powder River	5	0	178,975	0
Powell	77	10	3,017,912	475,310
Prairie	7	1	269,936	45,436
Ravalli	261	11	12,792,904	784,788
Richland	345	26	14,095,838	1,077,195
Roosevelt	97	3	3,794,011	95,984
Rosebud	57	6	2,510,304	238,879
Sanders	34	3	1,461,300	143,099
Sheridan	23	5	864,620	206,779
Silver Bow	703	39	25,775,770	1,816,990
Stillwater	69	6	3,368,381	413,678
Sweetgrass	23	3	1,095,675	172,600
Teton	46	7	1,961,678	347,147
Toole	64	6	2,352,946	264,569
Treasure	0	0	0	0
Valley	113	11	4,352,581	431,259
Wheatland	8	0	248,997	0
Wibaux	3	1	84,031	44,031
Yellowstone	<u>5,325</u>	<u>387</u>	<u>272,812,453</u>	<u>25,044,366</u>
STATE TOTAL	21,491	1,569	\$1,046,363,239	\$100,246,616

ACCOUNTING AND REPORTING

The Accounting and Reporting function at the Board accounts for approximately 8,000 mortgages totaling in excess of \$413 million, and monthly reporting for approximately 60 loan servicers. In addition, the accounting staff accounts for principle and interest on bonds payable of approximately \$516 million in 29 bond issues, and accounts for investment purchases of approximately \$583 million, and maturities and sales of approximately \$560 million dollars.

MULTIFAMILY PROGRAMS

The Board has financed or assisted in the financing of 2,994 multifamily housing units through June 30, 1997 in the State of Montana. Assistance in the development and retention of affordable multifamily units for lower income Montanans has been accomplished through the Multifamily Bond Program and the Low Income Housing Tax Credit Program.

MULTIFAMILY BOND PROGRAM

From 1978 to 1996, the Board financed 692 multifamily housing units in the State. The Board issued multifamily bonds and notes aggregating an initial principal amount of \$22,160,085.

SUMMARY OF MULTIFAMILY BOND PROGRAMS

<u>Series and Project:</u>	<u>Location</u>	<u>Units</u>	<u>Original Principal Amount</u>	<u>Construc- tion Loan Rate</u>	<u>Permanent Mortgage Loan Rate</u>
<u>1978 Series A:</u>					
Clark Fork Manor	Missoula	<u>134</u>	\$ 4,628,000	8.0%	7.0%
<u>1979 Series A (1992 Series A):</u>					
Crestwood Inn	Sidney	72	2,188,500	9.0%	7.5%
Silver Bow Village	Butte	60	1,925,000	8.5%	7.5%
Broadview Manor	Great Falls	20	713,200	8.5%	7.5%
Oakwood Village	Havre	60	1,793,600	8.5%	7.5%
The Elmwoods	Great Falls	<u>18</u>	<u>576,900</u>	8.5%	7.5%
		<u>230</u>	<u>7,197,200</u>		
<u>1982 Series A (1992 Series A):</u>					
Grand View Place	Missoula	<u>48</u>	<u>1,695,200</u>	12.0%	12.0%
<u>Other:</u>					
Miles Building	Livingston	40	1,081,885	14.5%	NA
Cut Bank Hotel	Cut Bank	<u>20</u>	<u>525,400</u>	10.0%	11.0%
		<u>60</u>	<u>1,607,285</u>		
<u>1980 Series A Construction Loan Notes:</u>					
Cedar View	Malta	32	1,269,900	11.0%	NA
Chair III	Whitefish	16	618,400	11.0%	NA
El Dorita Village	Kalispell	36	1,092,000	11.0%	NA
Rose Park Plaza	Billings	<u>112</u>	<u>3,222,100</u>	11.0%	NA
		<u>196</u>	<u>6,202,400</u>		
<u>1996 Series A:</u>					
West Babcock Apartments	Bozeman	24	830,000	NA	7.25%
		<u>692</u>	<u>\$22,160,085</u>		

PILOT PROGRAM FOR MULTIFAMILY RENTAL HOUSING

In February of 1993, the Board introduced its Pilot Program for Rental Housing by seeking proposals from governmental units, non-profits attached to governmental units and private non-profits to develop multifamily rental housing.

Since its inception the Board has loans through the Multifamily Pilot Program for Rental Housing to non-profit and governmental sponsors for the following projects:

<u>Project:</u>	<u>Location</u>	<u>Units</u>	<u>Original Principal Amount</u>	<u>Permanent Mortgage Loan Rate</u>
<u>LOANS CLOSED</u>				
Minnesota	Missoula	2	\$ 41,260	6%
Strand	Missoula	2	\$ 62,872	6%
Ronan Duplex	Ronan	2	\$ 85,895	6%
Ronan 4-Plex	Ronan	4	\$ 120,435	6%
Courtyard	Kalispell	16	\$ 268,523	6%
Bozeman Interfaith	Bozeman	9	\$ 227,351	6%
Holland Park	Great Falls	8	\$ 266,000	6%
Spring Garden	Billings	16	\$ 121,000	6%
		59	\$1,182,336	

RISK SHARING PROGRAM FOR MULTIFAMILY HOUSING

On June 13, 1994 the Board received final approval from the Department of Housing and Urban Development (HUD) to participate in the Risk Sharing Program. The Risk Sharing Program works in partnership with the Department of Housing and Urban Development (HUD), whereby HUD provides mortgage loan insurance and the Board provides mortgage underwriting and loan management as well as financing, and the two entities share the risk of loss from a project default. Currently the Board has the following projects:

<u>Project:</u>	<u>Location</u>	<u>Units</u>	<u>Principal Amount</u>	
<u>LOANS CLOSED</u>				
Phillips Apartments	Missoula	8	\$ 269,000	
West Babcock Apartments	Bozeman	24	\$ 830,000	(96A Bond Issue)
<u>RIS Addition</u>				
<u>Committed:</u>				
Pond Row Apartments	Bozeman	10	\$ 267,596	
Parkside Village	Hamilton	24	612,000	
		66	1,978,596	

The Board intends to finance the Program through the sale of tax-exempt multifamily bonds. The Board received 175 units of insurance authority and will be able to offer the remaining 109 units in 1997-98.

G.O. PROGRAM FOR MULTIFAMILY RENTAL HOUSING

The Board's G.O. Program for Multifamily Rental Housing provides mortgage financing to owners of qualifying housing when the owner agrees to restrict the rents to a specific amount, and to rent only to tenants below a maximum income level (generally 60% of median income). Currently this program is financing the permanent loans for small projects which receive multiple sources of funding through other programs, where rents on the project are affordable to very low income state residents. This program is being funded through excess revenues within the existing multifamily indenture and will be funded by future General Obligation bond issues. Currently the Board has the following projects:

<u>Project:</u>	<u>Location</u>	<u>Units</u>	<u>Principal Amount</u>
<u>LOANS CLOSED</u>			
Meadowlark Townhomes	Chester	6	\$ 236,000
<u>Committed:</u>			
River House	Missoula	20	\$ 250,000
Superior Senior Housing	Superior	8	\$ 128,000

LOW INCOME HOUSING TAX CREDIT PROGRAM

The Low Income Housing Tax Credit, established by Congress in the Tax Reform Act of 1986, is intended to provide for the retention, rehabilitation and construction of low income rental housing. Through the tax credit, developers and owners of qualified housing receive an annual federal tax credit for 10 years, based on the number of housing units provided to low income individuals and families.

In Fiscal Year 1996-97, the Board allocated \$1,712,652 in tax credits to assist in the development of twelve projects containing 446 low income housing units with total projected development costs of \$26,371,318. Since the inception of the program in November, 1987, the tax credit has been utilized in the rehabilitation and production of 2,166 low income housing units in 80 separate projects with total construction costs of \$110,714,281. This comprises over 50% of multifamily rental housing development in the state.

Low Income Housing Tax Credit Program Allocations by City 1987 through June 30, 1995

<u>City</u>	<u>Number of Developments</u>	<u>Number of LIHTC Units</u>	<u>LIHTC Allocated</u>	<u>Total Development Costs*</u>
Absorakee	1	32	\$ 15,134	\$ 755,867
Belgrade	2	48	204,796	2,514,012
Big Timber	1	24	36,186	1,149,013
Big Fork	1	32	46,963	1,488,538
Big Sky	1	24	106,430	1,420,178
Billings	9	405	1,628,926	19,073,466
Bozeman	2	52	203,917	2,566,267
Chester	1	6	3,030	275,296
Chinook	1	12	7,156	201,224
Columbia Falls	1	12	17,216	609,960
Cut Bank	1	19	31,659	1,034,474
Deer Lodge	1	24	24,222	698,472
Forsyth	2	36	54,228	1,724,391
Fort Benton	1	10	13,938	355,562
Glasgow	1	6	9,780	298,101
Great Falls	5	173	813,901	10,594,015
Hamilton	4	93	337,936	5,029,568
Hardin	2	40	77,324	1,937,806
Havre	7	30	32,660	873,588
Helena	2	74	384,886	4,408,979
Hysham	1	12	28,373	765,857
Joliet	1	1	1,409	35,313
Kalispell	5	173	676,068	8,781,498
Laurel	1	8	9,016	273,198
Livingston	1	24	32,644	937,516
Medicine Lake	1	4	3,595	78,576
Missoula	13	498	2,122,502	28,880,585
Pablo	1	20	128,626	1,586,680
Plains	1	9	11,600	310,923
Polson	2	82	141,854	3,374,116
Redlodge	1	31	133,381	1,731,869
Scobey	1	11	13,980	612,000
Shelby	1	12	16,960	487,300
Stevensville	1	30	37,178	1,044,900
West Yellowstone	1	53	178,193	2,563,215
Whitefish	1	40	82,227	1,972,480
Winnett	1	6	9,626	269,478
Total	80	2,166	\$7,677,520	\$110,714,281

* Inclusive of estimated costs for developments not yet completed.

REVERSE ANNUITY MORTGAGE LOAN PROGRAM

Many senior citizens in Montana own their own homes, and have little or no remaining debt on the home. Many of these homeowners are persons of lower income who would benefit from an additional income source from use of equity in their homes. Reverse Annuity Mortgage (RAM) loans enable senior homeowners to provide more substantially for their own in-home support and specialized care.

The Board currently has \$700,000 available to make loans at a five percent (5%) interest rate. The proceeds will be advanced monthly to the homeowner over a ten year term. Lump-sum advances up to \$3,300 will be available at loan closing.

The RAM program is available to senior citizens meeting the following general eligibility requirements:

- Age Requirements:** 68 or older (some exceptions may apply).
- Income Limit:** The income limits are based on 200 percent of the poverty level and currently the Borrower's Annual Family Income must not exceed the following:
- 1 person household \$15,780
 - 2 person household 21,220
 - 3 person household and up 26,660
- Property Eligibility:** The borrowers must be the owner and occupant of a single-family dwelling. The single-family dwelling must meet minimum FHA property standards as determined by an FHA appraisal.
- Loan Amount:** The loan amounts may range from a minimum of \$15,000 to a maximum of \$50,000. The maximum loan amount would be determined based on 80% of the FHA determined property value.
- Counseling:** Potential borrowers must complete a reverse annuity mortgage counseling program provided through the Montana Aging Services Network.

The following statistics for the 38 loans closed and 9 loans prepaid since program inception are indicative of the senior homeowners intended to be assisted with the program:

<u>Community</u>	<u>House- hold Size</u>	<u>Borrower Age</u>	<u>Borrower Annual Income</u>	<u>Loan Amount</u>
Alberton	1	77	\$ 9,232	\$40,000
Belgrade	1	80	12,810	50,000
Billings	2	85 & 86	10,626	40,000
Billings	2	79 & 78	10,436	40,000
Billings	1	76	5,312	47,200
Big Timber	1	73	9,288	50,000
Butte	1	75	7,104	25,200
Butte	2	75 & 80	11,842	28,000
Butte	2	73 & 72	14,486	41,200
Butte	1	75	9,047	50,000
Columbus	2	79 & 73	15,334	50,000
Dillon	2	78 & 78	7,620	40,000
Great Falls	2	73 & 70	10,161	40,000
Great Falls	1	79	11,476	37,600
Great Falls	1	81	12,179	50,000
Hamilton	1	70	9,370	40,000
Havre	1	77	8,284	32,000
Helena	1	77	6,540	50,000
Helena	2	75 & 74	20,001	50,000
Kalispell	2	84 & 81	9,996	33,000
Kalispell	1	74	9,785	50,000
Kalispell	2	73 & 83	14,581	50,000
Kalispell	1	72	9,762	50,000
Laurel	2	84 & 83	11,039	40,240
Libby	2	86 & 76	14,712	50,000
Livingston	1	81	9,126	50,000
Malta	1	70	5,280	16,800
Missoula	1	79	5,652	36,800
Missoula	1	70	9,326	40,000
Missoula	1	84	6,960	28,000
Polson	1	81	7,696	40,000
Ryegate	1	87	8,034	44,000
Shelby	1	75	9,330	50,000
Sidney	2	86 & 87	21,220	38,400
Somers	1	71	5,314	25,000
Stevensville	1	72	11,147	48,800
Townsend	1	85	10,229	32,000
Virginia City	2	69 & 71	18,101	50,000

Average Borrower Age: 78 Years

Average Borrower Annual Income: \$10,485

Average Loan Amount: \$41,427

Active Loans 29

Prepaid Loans 9

Total Loans 38

APPENDIX A

MONTANA BOARD OF HOUSING

FINANCIAL REPORT

JUNE 30, 1997

CONTENTS

PAGE

Current Status of Prior Year Recommendations.....	I
Independent Auditor's Report and Financial Statements.....	..1

MONTANA BOARD OF HOUSING
CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS
June 30, 1997 and 1996

There were no prior year audit recommendations to report on.

CONTENTS

PAGE

INDEPENDENT AUDITORS REPORT.....	1
----------------------------------	---

FINANCIAL STATEMENTS:

Combining Balance Sheet.....	2
Combining Statement of Revenues, Expenses, and Changes in Retained Earnings.....	3
Combining Statement of Cash Flows.....	4
Notes to Financial Statements.....	6
Single Family Combining Balance Sheet.....	24
Single Family Combining Statement of Revenues, Expenses, and Changes in Retained Earnings.....	27

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Montana Board of Housing
Helena, Montana:

We have audited the accompanying Combining Balance Sheet of the Enterprise Fund of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 1997, and the related Combining Statement of Revenues, Expenses and Changes in Retained Earnings and the Combining Statement of Cash Flows for the fiscal year then ended. The information contained in these financial statements is the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 1997, and the results of operation and its cash flows for the fiscal year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The Single Family Combining Balance Sheet as of June 30, 1997, and the related Single Family Combining Statement of Revenues, Expenses and Changes in Retained Earnings for the fiscal year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements of the Montana Board of Housing. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The other data included in this report were not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

October 10, 1997

MONTANA BOARD OF HOUSING,
ENTERPRISE FUND
COMBINING BALANCE SHEET
June 30, 1997 with comparative combined totals for 1996

	Single Family Mortgage Program funds	Multifamily Mortgage Program Funds	Housing Trust Fund	1997	Combined Totals 1996 (As Restated) (Notes 17 & 4)
ASSETS					
Cash and cash equivalents (Note 2)	\$ 1,766,580	\$ 95,110	\$1,304,110	\$ 3,165,800	\$ 4,514,599
Investments (Note 4)	179,399,029	4,702,123	-	184,101,152	159,922,347
(Market Value - \$185,907,443)					
Mortgage Loans receivable (Note 5)	398,009,298	14,708,090	523,183	413,240,571	355,154,314
Interest receivable	4,831,709	182,502	79,631	5,093,842	4,289,239
Deferred bond issuance costs, net	5,737,692	240,400	-	5,978,092	5,375,426
Fixed assets (Note 8)	86,958	6,559	23,597	117,114	113,460
Prepaid expense	35,459	908	2,078	38,445	25,995
Accounts Receivable	849	-	-	849	1,951
Cash Collateral for Securities Lending	8,232	-	32,497	40,729	56,097
Total Assets	<u>\$589,875,806</u>	<u>\$19,935,692</u>	<u>\$1,965,096</u>	<u>\$611,776,594</u>	<u>\$529,453,428</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$287,966	\$6,561	\$6,927	\$301,454	\$275,234
Premium on bonds payable	357,100	-	-	357,100	-
Cost of issuance payable	139,041	-	-	139,041	-
Accrued interest-bonds payable	4,686,451	367,794	-	5,054,245	4,478,026
Bonds payable, net (Note 9)	501,657,181	14,259,299	-	515,916,480	439,305,422
Deferred Refunding Costs (Note 15)	728,351	-	-	728,351	673,135
Arbitrage tax payable to U.S.					
Treasury Department (Note 13)	86,263	-	-	86,263	37,977
Accrued compensated absences	36,442	2,621	2,056	41,119	36,671
Collateral for Securities Lending	8,232	-	32,497	40,729	56,097
Total Liabilities	<u>507,987,027</u>	<u>14,636,275</u>	<u>41,480</u>	<u>522,664,782</u>	<u>444,862,562</u>
Retained Earnings:					
Reserved Retained Earnings-Pledged to Bondholders (Note 1 & 11):					
Single Family Programs	60,533,331	-	733,582	61,266,913	55,048,975
Various Recycled Mortgage Programs	21,355,448	-	-	21,355,448	23,541,896
Multifamily Programs	-	4,001,821	-	4,001,821	1,692,641
Multifamily Project Commitments	-	1,297,596	-	1,297,596	3,193,428
Reverse Annuity Mortgage Program	-	-	1,145,564	1,145,564	998,952
Cash Assistance Program	-	-	44,470	44,470	114,974
Total Retained Earnings	<u>81,888,779</u>	<u>5,299,417</u>	<u>1,923,616</u>	<u>89,111,812</u>	<u>84,590,866</u>
Total Liabilities and Retained Earnings	<u>\$589,875,806</u>	<u>\$19,935,692</u>	<u>\$1,965,096</u>	<u>\$611,776,594</u>	<u>\$529,453,428</u>

See accompanying notes to financial statements.

MONTANA BOARD OF HOUSING,
ENTERPRISE FUND
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
June 30, 1997 with comparative combined totals for 1996

	Single Family Mortgage Program funds	Multifamily Mortgage Program Funds	Housing Trust Fund	1997	Combined Totals 1996 (As Restated) (Notes 17 & 4)
REVENUES:					
Interest income-mortgage loans	\$ 28,402,259	\$ 1,092,919	\$ 25,511	\$29,520,689	\$ 27,603,502
Interest income-investments	9,723,117	267,383	67,983	10,058,483	11,160,515
Fee income	77,362	5,719	83,089	166,170	41,570
Gain (Loss) on sale of investments	164,892	(221)	-	164,671	684,406
Other income	30	9,606	-	9,636	13,879
Securities Lending Income	1,386	-	4,584	5,970	975
Total revenues	<u>\$ 38,369,046</u>	<u>\$1,375,406</u>	<u>\$181,167</u>	<u>\$ 39,925,619</u>	<u>\$ 39,504,847</u>
EXPENSES:					
Interest on bonds	\$ 30,975,200	\$ 865,383	\$ -	\$ 31,840,583	\$ 31,371,444
Servicer fees	1,417,470	17,219	-	1,434,689	1,295,003
Amortization of bond issuance costs	474,383	12,220	-	486,603	572,396
General and administrative	1,023,683	67,236	58,309	1,149,228	1,152,210
Securities Lending Expense	1,312	-	4,337	5,649	945
Arbitrage rebate tax (Note 13)	48,284	-	-	48,284	118,734
Loss on redemption (Note 10)	439,637	-	-	439,637	316,550
Total Expenses	<u>34,379,969</u>	<u>962,058</u>	<u>62,646</u>	<u>35,404,673</u>	<u>34,827,282</u>
Net operating income (loss) before operating transfers	3,989,077	413,348	118,521	4,520,946	4,677,565
Operating Transfers in	-	-	70,000	70,000	-
Operating Transfers out	(70,000)	-	-	(70,000)	-
Net income (loss)	3,919,077	413,348	188,521	4,520,946	4,677,565
Retained Earnings, beginning of year:					
Reserved Retained Earnings-Pledged to Bondholders	77,969,702	4,886,069	1,735,095	84,590,866	79,913,301
Retained Earnings, end of year:					
Reserved Retained Earnings-Pledged to bondholders	<u>\$ 81,888,779</u>	<u>\$ 5,299,417</u>	<u>\$ 1,923,616</u>	<u>\$ 89,111,812</u>	<u>\$ 84,590,866</u>

See accompanying notes to financial statements.

MONTANA BOARD OF HOUSING,
ENTERPRISE FUND
COMBINING STATEMENT OF CASH FLOWS
June 30, 1997 with comparative combined totals for 1996

	Single Family Mortgage Program funds	Multifamily Mortgage Program Funds	Housing Trust Fund	1997	Combined Totals 1996 (As Restated) (Notes 17 & 4)
REVENUES:					
CASH FLOWS FROM OPERATING ACTIVITY					
Receipts for Sales and Services	\$ -	\$ -	\$83,089	\$83,089	\$ 38,402
Collections on Loans					
And Interest on Loans	71,522,188	1,289,762	29,193	72,841,143	71,126,499
Cash payments for Loans	(100,046,617)	(1,456,000)	(169,763)	(101,672,380)	(57,241,872)
Payments to Suppliers					
for Goods and Services	(2,039,772)	(59,854)	(26,057)	(2,125,683)	(2,006,256)
Payments to employees	(358,386)	(22,672)	(27,458)	(408,516)	(376,897)
Other Operating Revenues	164,922	9,385	-	174,307	698,285
Net Cash Provided (Used) for					
Operating Activities	<u>(30,757,665)</u>	<u>(239,379)</u>	<u>(110,996)</u>	<u>(31,108,040)</u>	<u>12,238,161</u>
CASH FLOWS FROM NONCAPITAL					
FINANCING ACTIVITIES:					
Payment of Principal and					
Interest on Bonds and Notes	(110,839,139)	(1,078,443)	-	(111,917,582)	(105,141,757)
Proceeds from Issuance					
of Bonds and Notes	156,360,000	890,000	-	157,250,000	88,000,000
Payment of Bond Issuance Costs	(1,709,203)	(50,981)	-	(1,760,184)	(1,086,573)
Premium Paid on Refunding Bonds	-	-	-	-	(406,600)
Deferred Gain on Refunding Bonds	796,913	-	-	796,913	1,856,233
Transfers in (out)	(70,000)	-	70,000	-	-
Net Cash Provided (Used for)					
Noncapital Financing Activities	<u>44,538,571</u>	<u>(239,424)</u>	<u>70,000</u>	<u>44,369,147</u>	<u>(16,778,697)</u>
CASH FLOWS FROM CAPITAL AND RELATED					
FINANCING ACTIVITIES:					
Acquisition of Fixed Assets	(30,644)	(1,702)	(1,702)	(34,048)	(68,124)
Net Cash Used for Capital and					
Related Financing Activities	<u>(30,644)</u>	<u>(1,702)</u>	<u>(1,702)</u>	<u>(34,048)</u>	<u>(68,124)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(568,683,551)	(14,695,608)	-	(583,379,159)	(795,697,236)
Proceeds from Sales or					
Maturities of Investments	544,482,081	14,690,367	-	559,172,448	790,310,860
Interest on Investments	9,302,227	260,396	68,230	9,630,853	11,603,364
Arbitrage Rebate Tax	-	-	-	-	(206,037)
Net Cash Provided by (Used for)					
Investing Activities	<u>(14,899,243)</u>	<u>255,155</u>	<u>68,230</u>	<u>(14,575,858)</u>	<u>6,010,951</u>
Net Increase (Decrease) in Cash					
And Cash Equivalents	(1,148,981)	(225,350)	25,532	(1,348,799)	1,402,291
Cash and Cash Equivalents, July 1, 1996	2,915,561	320,460	1,278,578	4,514,599	3,112,308
Cash and Cash Equivalents, June 30 1997	<u>\$1,766,580</u>	<u>\$95,110</u>	<u>\$1,304,110</u>	<u>\$3,165,800</u>	<u>\$4,514,599</u>

See accompanying notes to financial statements.

MONTANA BOARD OF HOUSING,
ENTERPRISE FUND
COMBINING STATEMENT OF CASH FLOWS
June 30, 1997 with comparative combined totals for 1996

	Single Family Mortgage Program funds	Multifamily Mortgage Program Funds	Housing Trust Fund	1997	Combined Totals 1996 (As Restated) (Notes 17 & 4)
REVENUES:					
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income (loss)	\$ 3,989,077	\$ 413,348	\$ 118,521	\$ 4,520,946	\$4,677,565
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	26,278	932	3,184	30,394	37,049
Amortization	914,020	12,220	-	926,240	888,946
Interest Expense	30,975,200	865,383	-	31,840,583	31,371,444
Interest on Investments	(9,723,191)	(267,383)	(68,230)	(10,058,804)	(11,160,545)
Arbitrage Rebate Tax	48,286	-	-	48,286	118,734
Change in Assets and Liabilities:					
Decr (Incr) in accounts receivable	885	50	167	1,102	539
Decr (Incr) in Mortgage Loans Receivable	(56,716,322)	(1,259,098)	(141,025)	(58,116,445)	(13,700,315)
Decr (Incr) in other assets	(330,536)	(5,477)	(25,194)	(361,207)	(63,959)
Incr (Decr) in Accounts Payable	23,979	882	1,359	26,220	14,546
Incr (Decr) in Deferred Revenue	30,655	(458)	-	30,197	45,749
Incr (Decr) in Compensated Absences Payable	4,004	222	222	4,448	8,408
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ (30,757,665)</u></u>	<u><u>\$ (239,379)</u></u>	<u><u>\$ (110,996)</u></u>	<u><u>\$ (31,108,040)</u></u>	<u><u>\$12,238,161</u></u>

See accompanying notes to financial statements.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 1997 and 1996**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

The Montana Board of Housing (the Board) is a quasi-judicial board created in 1975, by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income as determined in accordance with the Board policy in compliance with the Internal Revenue Code. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$975,000,000. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for payment of amounts so issued. The Board of Housing is attached to the Housing Division, Department of Commerce.

Basis of Presentation:

The financial statements of the Board have been prepared in conformity with generally accepted accounting principles whereby revenues are recognized when earned and expenses are recognized when incurred. The financial activities of the Board are recorded in funds established under various bond resolutions. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period.

Reporting Entity:

In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board of Housing as a reporting entity. The financial statements of the Board of Housing are presented as a component unit in the State of Montana's General Purpose Financial Statements. The enterprise fund of the Board of Housing is part of but does not comprise the entire proprietary fund type of the State of Montana. The State of Montana directs and supervises budgeting, record keeping, reporting, and related administrative functions of the Board.

Fund Accounting:

To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the Board of Housing accounts are organized in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self balancing accounts which are comprised of each fund's assets, liabilities, fund balances, revenues, and expenses. The Board is classified as an enterprise fund, that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, and other purposes. Reserved Retained Earnings (pledged to bondholders) represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following describes the restrictions on the Reserved Retained Earnings: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Because of the nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentures. The individual indentures also set certain reserve requirements on cash and investments. These reserves are disclosed in Note 4 to the financial statements. Also, as disclosed in Note 5 to the financial statements, the mortgage loans receivable are pledged as security for holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Accounting - continued

Reserved Retained Earnings also include reserved and committed funds for various programs established by the Board.

Fund Structure:

Single Family Mortgage Program Funds - these funds, established under ten separate trust indentures adopted on various dates, are established for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, restricted to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by Veterans Administration or Rural Development (RD).

The accompanying combining financial statements present the Single Family Mortgage Program Funds in one column. The assets of each individual Single Family Mortgage Program Fund are restricted by the Fund's respective trust indenture; therefore, the total does not indicate that the Single Family Mortgage Program Funds' assets are available in any manner other than provided for in the individual trust indentures. The Board has reserved funds for specific loan programs. These loans will be originated from funds available in the Single Family I and II Indenture.

Multifamily Mortgage Program Funds - These funds, established under a trust indenture adopted February 23, 1978, as amended and restated as of December 29, 1992, are established for accounting for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. Mortgage loans originated prior to December 1992, must be insured by the Federal Housing Administration.

Housing Trust Fund - the Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs and the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners and the Home Buyers Cash Assistance Program (CAP) to assist lower income individuals and families in the purchase of a single family home. The Housing Trust Fund also includes all activity from the Low Income Housing Tax Credit Program.

Cash and Cash Equivalents:

For the purposes of the combining statement of cash flows, cash and cash equivalents consist of cash held by the State of Montana Treasurer, cash held by trustees, and cash invested in the state's short term investment pool.

Investments:

Investment of the Board's monies is made in accordance with the Board's investment policy, dated January 9, 1996, which is in compliance with the trust indentures and the laws of the State of Montana.

Permitted investments are U.S. treasury obligations, U.S. agency obligations, debentures, or notes,

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Investments - continued:

certificates of deposits or time deposits, insured by the FDIC or fully insured by U.S. treasury or agency obligations which have a market value at least equal to the amount of such deposits, and investment contracts fully collateralized in an amount equal to 102% of the principal and interest of the agreement.

In no case shall an investment result in a reduction of ratings by Standard & Poor's Rating Services or Moody's Investor Services.

From 1988 to 1992 the Board invested in guaranteed investment contracts that had underlying collateral equal to 100% of the principal and interest of the agreements.

Investments, which are generally intended to be held to maturity, are reported at the lower of cost or market. Investment premiums or discounts of \$1,000 or more are amortized using the straight-line method over the life of the investment. Short-term discount investments are reported at cost.

Mortgage Loans Receivable:

Mortgage loans receivable are carried at their uncollected principal balances, adjusted for unamortized mortgage discounts and deferred loan fees, less an allowance for loan losses. Mortgage discounts and loan fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the FHA (Federal Housing Administration) or guaranteed by the VA (Veterans Administration) or RD (Rural Development). Guidelines to minimize credit risk are established by FHA, VA, RD and Board policies.

Interest receivable is accrued on the amount of outstanding mortgage loan principal only if deemed collectible. Accrual on non-performing loans ceases at six months.

Estimated losses are determined based on management's judgement, giving effect to numerous factors including, but not necessarily limited to, general economic conditions, loan portfolio composition, prior loss experience and independent appraisals. The reserve for anticipated loan losses represents amounts which are not expected to be fully reimbursed by certain guarantors.

The Board incurs mortgage loan service fees with participating loan servicers based on outstanding monthly mortgage loan principal balances. The service fees are paid only when the mortgagee's full monthly payment is collected.

Fixed Assets:

Fixed assets are recorded at cost and depreciation is computed using the straight-line method over estimated useful lives of 3 to 10 years. The majority of fixed assets consists of computers and software.

Bonds Payable:

Bonds payable is adjusted for amortized bond premiums and discounts. Bond premiums and discounts are amortized or accreted to interest expenses using the interest method, as an adjustment to yield, over the life of the bonds to which they relate or are expensed upon early redemption of the bonds.

Bond issuance costs, including underwriter discounts, are amortized using the bonds outstanding method over the life of the bonds or are expensed upon early redemption of the bonds.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Compensated Absences:

The Boards' employees earn vacation leave ranging from 15 to 24 days per year depending on the employee's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

NOTE 2. CASH AND CASH EQUIVALENTS

As disclosed in note 4, the Board's investments are categorized to give an indication of the level of risk assumed by the Board. These same risk categories are used below for cash and cash equivalents. All cash held by trustees and cash balances maintained by the State of Montana Treasury and held in the State's Short Term Investment Pool were covered by federal depository insurance or collateralized by securities held by third parties in the Board's name. At June 30, 1997 and 1996, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Fund	Category			Totals	
	1	2	3	1997	1996
Program Funds*	\$ 3,072,412	\$ -	\$ -	\$3,072,412	\$4,282,601
Deposited with State Treasury	93,388	-	-	93,388	231,998
	<u>\$ 3,165,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,165,800</u>	<u>\$ 4,514,599</u>

* Cash deposits are held at the trustee bank. Based on the opinion of the Board's bond counsel, these funds are insured by the FDIC on a pass-through basis to the owners of mortgage bonds. Thus, each individual bondholder is entitled to \$100,000 of insurance coverage.

The units held in the State's Short Term Investment Pool (STIP) are valued at \$1 per unit. The market value of STIP is equal to the cost. STIP securities include Banker's Acceptances, Commercial Paper, Corporate Obligations, Montana Certificates of Deposit, Government Securities, and Repurchase Agreements.

NOTE 3. SECURITIES LENDING

The Board of Housing invests in the State's Short-Term Investment Pool. As part of the pool, administered by the Board of Investments the Board participates in securities lending transactions. Under GASB 28, the following disclosures are required:

Under the provisions of state statutes, the Board of Investments (BOI) has, via, a Securities Lending Authorization Agreement authorized a custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, BOI receives a fee and the custodial bank must initially receive collateral equal to 102% of the market value of the loaned securities and maintain collateral equal to not less than 100% of the market value of the loaned security. BOI retains all rights and risks of ownership during the loan period.

During fiscal years 1997 and 1996, State Street lent, on behalf of BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

BOI did not impose any restrictions during fiscal year 1997 and 1996 on the amount of loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 1997 and 1996. More over, there were no losses during fiscal

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 3. SECURITIES LENDING-CONTINUED

years 1997 and 1996 resulting from a default of the borrowers or State Street. During fiscal years 1997 and 1996, BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which BOI could not determine. On June 30, 1997 and June 30, 1996, BOI had no credit risk exposure to borrowers.

NOTE 4. INVESTMENTS

The Board's investments are categorized below to give an indication of the level of risk assumed by the Board. Category 1 includes investments which are insured, registered, or held by the Board or its agent in the Board's name. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments that are held by the Counterpart, or by its trust department or agent but not in the Board's name. The Board's investments at June 30, 1997 and 1996 consisted of Category 2 investments:

	1997		1996	
	Carrying Amount	Market Value	Carrying Amount	Market Value**
U.S. Treasury	\$58,861,426	\$59,933,000	\$32,696,676	\$33,767,184
U.S. Agency	\$45,730,283	46,465,000	64,319,814	\$64,352,753
Repurchase agreements and Investment Contracts-- collateralized	<u>\$79,509,443</u>	<u>79,509,443</u>	<u>\$62,905,857</u>	<u>\$62,905,857</u>
Total	<u>\$ 184,101,152</u>	<u>\$185,907,443</u>	<u>\$159,922,347</u>	<u>\$161,025,794</u>

All repurchase agreements and investment contracts were fully collateralized with securities and cash held by the provider's agent and confirmed by the trustee as required by the bond indentures. Securities underlying the repurchase agreements have a market value of at least 102% of the cost of repurchase agreement. Securities underlying the investment contracts have a market value of at least 100% of the cost of the investment contract plus accrued interest.

**The 1996 Market value of the repurchase agreements and the investment contracts has been restated to reflect the value at cost rather than at the market value of the underlying securities.

Portions of cash and investments are restricted to uses specified by applicable bond indentures and the HUD risk sharing agreement. Amounts are restricted as follows:

	1997		1996	
	Single family Mortgage Program Funds	Multifamily Mortgage Program funds	Single family Mortgage Program funds	Multifamily Mortgage Program Funds
Funds				
Debt service reserve	\$46,826,242	\$896,451	\$46,979,454	\$845,804
Mortgage reserve	\$3,357,626	\$266,451	\$3,930,089	\$256,773
HUD risk sharing	-	-	-	559,752
Total	<u>\$50,183,868</u>	<u>\$1,161,902</u>	<u>\$50,909,543</u>	<u>\$1,662,329</u>

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 5. MORTGAGE LOANS RECEIVABLE

The mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. Mortgage loans receivable consist of the following:

	<u>1997</u>	<u>1996</u>
Mortgage loan receivables:		
Single Family Program	\$402,686,868	\$345,970,539
Multifamily program	14,785,936	13,526,838
Housing Trust Program	<u>523,183</u>	<u>382,156</u>
	417,995,987	359,879,533
Net mortgage discounts and deferred reservation fees	(4,705,416)	(4,675,219)
Allowance for loan losses and real estate owned	(50,000)	(50,000)
	<u>\$413,240,571</u>	<u>\$355,154,314</u>

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

The following summarizes activity in the allowance for loan losses and real estate owned:

Balance, June 30, 1995	\$50,000
Provision	(10,656)
Less: Net loans charged off	<u>10,656</u>
Balance, June 30, 1996	50,000
Provision	(10,433)
Less: Net loans charged off	<u>10,433</u>
Balance, June 30, 1997	<u>\$ 50,000</u>

The allowance for loan losses includes \$30,000 at June 30, 1997 and \$30,000 at June 30, 1996 for future estimated losses on real estate owned. Real estate owned property is property that is acquired through foreclosure or in satisfaction of loans and is initially recorded at the lower of the related loan balance, less any specific allowance for loss, or fair market value minus estimated costs to sell. The Board had no real estate owned property during 1997 or 1996.

NOTE 7. MULTIFAMILY ESCROW AND RESERVE DEPOSITS HELD IN TRUST

For the years ended June 30, 1997 and 1996 escrow and reserve deposits for certain Multifamily mortgages were held in trust for the mortgagor for insurance, real estate taxes and a reserve for replacement under the terms of certain Regulatory Agreements between the Board and the mortgagors. The escrows amounted to \$395,956 and \$351,038 at June 30, 1997 and 1996 respectively. The escrows are invested with the earnings credited to the mortgagor of the project, not the Board. The escrow and related liabilities are not reflected in the accompanying combining balance sheet.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 8. FIXED ASSETS

Fixed assets consist primarily of computer hardware, peripherals, software and other office equipment. Balances are as follows:

	<u>1997</u>	<u>1996</u>
Furniture, fixtures, and equipment at cost	\$293,202	\$299,761
Accumulated depreciation	<u>(176,088)</u>	<u>(186,301)</u>
Net fixed assets	<u>\$ 117,114</u>	<u>\$ 113,460</u>

Depreciation expense included in general and administrative expense was \$30,394 and \$37,049 for the years ended June 30, 1997 and 1996 respectively.

NOTE 9. BONDS PAYABLE, NET

Bonds payable, net of premium or discount, consists of the following:

	<u>Original Amount</u>	<u>1997</u>	<u>1996</u>
Single Family I Mortgage Bonds:			
1977 -			
Series A, 4.5% to 8% interest, maturing in Scheduled annual installments to October 1, 2008.--refunded, June 4, 1997	\$21,470,000	\$0	\$8,880,000
Series B, 4.15% to 8% interest, maturing in Scheduled annual installments to October 1, 2008.--refunded, June 4, 1997	35,060,000	0	15,020,000
1978 -			
Series A, 6% to 6.5% interest, maturing in scheduled annual installments to October 1, 2009.--refunded, June 4, 1997	13,600,000	0	6,080,000
1987 -			
Series A, 5.3% to 8.625% interest, maturing in scheduled annual installments to April 1, 2000 and on April 1, 2018.--refunded June 4, 1997	20,000,000	0	7,330,000
Series B-1 and B-2, serial and term bonds, 6.25% to 9% interest, maturing in scheduled annual installments to April 1, 2019.-- refunded June 4, 1997	20,000,000	0	5,900,000

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 9. BONDS PAYABLE, NET - continued

	<u>Original Amount</u>	<u>1997</u>	<u>1996</u>
1988 -			
Series A-1 and A-2 serial, term and Postponed Revenue on Future Income Tax-Exempt Securities (PROFITS), 5.4% to 8.5% interest, maturing in scheduled annual installments to April 1, 2003 and on April 1, 2019.--redeemed May 1, 1997	19,998,793	0	\$ 9,107,596
1997			
Series A-1 and A-2 serial and term bonds 4.00% to 6.15% maturing in scheduled semi-annual installments commencing June 1, 1998 to December 1, 2011, and on December 1, 2016, December 1, 2017, December 1, 2027, December 1, 2029 December 1, 2030 and December 1, 2037	91,360,000	91,360,000	0
Total Bonds outstanding		91,360,000	52,317,596
Unamortized bond discount		-	(16,494)
Total bonds payable, net		<u>\$91,360,000</u>	<u>52,301,102</u>
Single Family II Mortgage Bonds:			
1983 -			
Series C, serial, term and Capital Appreciation Bonds (CAB), 5.75% to 10.7% interest. Serial and term bonds, refunded April 15, 1994. CABS are reported at accreted value, and are scheduled for redemption, in part, in semi- annual installments commencing June 1, 2003 to June 1, 2010.	114,998,229	17,933,628	19,721,879
1984 -			
Series A, serial, term and CABS, 7.0% to 10.375% interest. Serial and term bonds refunded August 1, 1994. CABS are reported at accreted value, and are scheduled for redemption, in part, in annual installments commencing June 1, 2005 to June 1, 2010.	75,002,290	3,270,516	6,076,941

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 9. BONDS PAYABLE, NET - continued

	<u>Original Amount</u>	<u>1997</u>	<u>1996</u>
1985 - Series A, serial, term, CAB and Postponed Revenue on Future Income Tax - Exempt Securities (PROFITS), CABS are reported at accreted value, and scheduled for redemption, in part, in semi- annual installments commencing June 1, 1999 to December 1, 2004 and December 1, 2015 to June 1, 2016; PROFITS are reported at accreted value, and begin to pay interest semi-annually, scheduled for redemption, in part, in semi-annual installments commencing December 1, 2010 to June 1, 2013.	\$ 39,999,625	10,473,037	\$ 11,923,987
1985 - Series B, term bonds maturing in scheduled semi- annual installments commencing June 1, 2006 to June 1, 2011.	74,996,862	3,590,000	4,345,000
1992 - Series RA, serial and term, 5.65% to 6.5% interest, serial and term bonds maturing in scheduled semi- annual installments commencing June 1, 2003 to December 1, 2007, and on December 1, 2012, December 1, 2022, and December 1, 2032.	22,520,000	22,520,000	22,520,000
1994 - Series A-1 and A-2, serial and term bonds, 3.1% to 6.1% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2015 and December 1, 2024.	25,725,000	19,795,000	21,475,000
Series B-1 and B-2, serial and term bonds, 3.8% to 6.9% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2008, December 1, 2014 and June 1, 2025.	40,815,000	30,190,000	33,235,000
Series C-1 and C-2, serial and term bonds 4.5% to 6.8% interest, serial and term bonds maturing in scheduled semi-annual installments commencing December 1, 1996 to December 1, 2008 and on December 1, 2016, June 1, 2020, and December 1, 2026.	20,000,000	18,810,000	19,190,000

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 9. BONDS PAYABLE, NET - continued

	<u>Original Amount</u>	<u>1997</u>	<u>1996</u>
1995 -			
Series A-1 and A-2 serial and term bonds 4.75% to 6.55% maturing in scheduled semi-annual installments commencing December 1, 1997 to December 1, 2009, and on December 1, 2012, December 1, 2017, December 1, 2025, and June 1, 2027.	\$ 33,580,000	32,040,000	\$ 32,820,000
Series B-1 and B-2 serial and term bonds 4.20% to 6.40% maturing in scheduled semi-annual installments commencing June 1, 1998 to December 1, 2008, June 1, 2006 to December 1, 2008 and on December 1, 2014, December 1, 2021, December 1, 2027, and June 1, 2035.	\$ 88,000,000	88,000,000	88,000,000
1996-			
Series A-1 and A-2 serial and term bonds 4.70% to 6.375% maturing in scheduled semi-annual installments commencing June 1, 1999 to December 1, 2009, and on December 1, 2012, December 1, 2016, December 1, 2024, and June 1, 2028.	\$ 65,000,000	<u>65,000,000</u>	<u>0</u>
Total bonds outstanding		<u>311,622,181</u>	<u>259,307,807</u>

Single Family III Mortgage Bonds:

1988 -

Series B-1 and B-2, serial and term senior bonds and subordinate bonds, 6.2% to 8.9% interest, maturing in scheduled semi-annual installments to October 1, 2008, and on October 1, 2014 and October 1, 2020.

Senior Bonds	\$24,000,000	8,485,000	\$10,310,000
Subordinate Bonds	1,000,000	305,000	445,000

Single Family IV Mortgage Bonds:

1989 -

Series A-1 and A-2, serial and term senior bonds and subordinate bonds, 7% to 9.2% interest, maturing in scheduled semi-annual installments to October 1, 2004, and on October 1, 2009, October 1, 2018 and October 1, 2020.

Senior Bonds	24,000,000	9,130,000	10,645,000
Subordinate Bonds	1,000,000	325,000	445,000

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 9. BONDS PAYABLE, NET - continued

Single Family V Mortgage Bonds:

	<u>Amount</u>	<u>1997</u>	<u>1996</u>
1990 -			
Series A-1 and A-2, serial and term senior bonds and subordinate bonds, 6.2% to 8.525% interest, maturing in scheduled semi-annual installments to October 1, 2005, and on October 1, 2010, October 1, 2016, October 1, 2017 and October 1, 2021.			
Senior Bonds	24,000,000	10,475,000	12,090,000
Subordinate Bonds	1,000,000	455,000	585,000

Single Family VI Mortgage Bonds:

1990 -			
Series B-1 and B-2, serial and term bonds and subordinate bonds, 6.3% to 8.5% interest, maturing in scheduled semi-annual installments to October 1, 2005, and on October 1, 2010, October 1, 2016, October 1, 2017, and April 1, 2022.			
Senior Bonds	\$24,000,000	11,295,000	\$13,550,000
Subordinate Bonds	1,000,000	495,000	620,000

Single Family VII Mortgage Bonds:

1990 -			
Series C-1 and C-2, serial and term bonds and subordinate bonds, 6.55% to 8.95% interest, maturing in semi-annual installments to October 1, 2004, and on October 1, 2010, October 1, 2017, October 1, 2021, and April 1, 2022.			
Senior Bonds	24,000,000	10,850,000	13,030,000
Subordinate Bonds	1,000,000	520,000	655,000

Single Family VIII Mortgage Bonds:

1991 -			
Series A-1 and A-2, serial and term bonds and subordinate bonds, 5.2% to 8.275% interest, maturing in semi-annual installments to October 1, 2006, and on October 1, 2017, October 1, 2019, and October 1, 2022.			
Senior Bonds	24,000,000	13,875,000	15,925,000
Subordinate Bonds	1,000,000	610,000	725,000

Single Family IX Mortgage Bonds:

1991 -			
Series B-1 and B-2, serial and term bonds and subordinate bonds, 5.50% to 8.4% interest, maturing in semi-annual installments to October 1, 2004, and on October 1, 2006, October 1, 2017, October 1, 2022 and April 1, 2023.			
Senior Bonds	24,000,000	14,480,000	16,000,000
Subordinate Bonds	1,000,000	630,000	720,000

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 9. BONDS PAYABLE, NET - continued

	<u>Original Amount</u>	<u>1997</u>	<u>1996</u>
Single Family X Mortgage Bonds:			
1992 -			
Series A-1 and A-2, serial and term bonds and subordinate bonds, 4.45% to 7.85% interest, maturing in scheduled semi-annual installments to October 1, 2006, and on October 1, 2016, October 1, 2022 and October 1, 2023.			
Senior Bonds	\$24,000,000	16,060,000	\$17,595,000
Subordinate Bonds	1,000,000	<u>685,000</u>	<u>755,000</u>
Total Single Family Mortgage bonds payable, net		<u>501,657,181</u>	<u>425,703,909</u>

All single family mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 103%.

Single Family III through X mortgage senior bonds are special obligation bonds of the Board of Housing whereas subordinate bonds are general obligation bonds of the Board of Housing.

Single Family I and II mortgage series bonds are general obligation bonds of the Board of Housing within the individual bond indenture.

	<u>Original Amount</u>	<u>1997</u>	<u>1996</u>
Multifamily Mortgage Bonds:			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.	\$4,865,000	4,180,000	\$4,245,000
1992 -			
Series A, 2.95% to 6.55% interest, serial and term Bonds, maturing in scheduled semi-annual installments to August 1, 2006, and on August 1, 2012, and August 1, 2023.	9,725,000	9,140,000	9,305,000
1996			
Series A, 4.10% to 6.15% interest, serial and term Bonds, maturing in scheduled annual installments to August 1 2001, and on August 1, 2016, and August 1, 2026.	<u>890,000</u>	<u>890,000</u>	<u>0</u>
Total bonds outstanding		14,210,000	13,550,000
Unamortized bond premiums		<u>49,299</u>	<u>51,513</u>
Total Multifamily Mortgage bonds payable, net		<u>14,259,299</u>	<u>13,601,513</u>
Combined total bonds payable, net		<u>\$515,916,480</u>	<u>\$439,305,422</u>

All multifamily bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption after various dates at prices ranging from 100% to 105%.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 9. BONDS PAYABLE, NET - continued

The following is a primary summary of bond principal and interest requirements as of June 30, 1997:

Year Ending June 30:	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Principal Totals	Interest Totals
1998	\$37,897,154	\$1,138,158	\$ 7,580,000	\$31,455,312
1999	38,674,186	1,134,695	9,094,799	30,714,082
2000	39,565,690	1,135,162	10,243,317	30,457,535
2001	40,046,077	1,139,254	11,141,810	30,043,521
2002	39,771,096	1,137,015	11,332,915	29,575,196
Thereafter	947,284,951	22,567,240	466,474,340	503,377,851
Total	<u>\$1,143,239,154</u>	<u>\$28,251,524</u>	<u>\$515,867,181</u>	<u>\$655,623,497</u>

Cash paid for interest expenses during the years ending June 30, 1997 and 1996 was \$27,893,647 and \$27,871,964.

NOTE 10. LOSS ON REDEMPTION

During the years ended June 30, 1997 and 1996 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

	<u>1997</u>	<u>1996</u>
Single Family I		
August 1	\$8,917,766	-
October 1	1,830,000	\$1,645,214
December 1	375,000	-
April 1	2,950,000	1,423,969
May 1	<u>2,975,000</u>	-
	<u>17,047,766</u>	<u>3,069,183</u>
Single Family II		
September 1	-	\$1,034,786
December 1	\$9,370,617	-
January 1	-	3,261,398
June 1	<u>2,495,555</u>	<u>5,514,426</u>
	<u>11,866,172</u>	<u>9,810,610</u>
Single Family III		
October 1	\$1,205,000	\$415,000
April 1	<u>525,000</u>	<u>975,000</u>
	<u>1,730,000</u>	<u>1,390,000</u>
Single Family IV		
October 1	\$840,000	\$785,000
April 1	<u>615,000</u>	<u>615,000</u>
	<u>1,455,000</u>	<u>1,400,000</u>
Single Family V		
October 1	\$885,000	\$970,000
April 1	<u>585,000</u>	<u>950,000</u>
	<u>1,470,000</u>	<u>1,920,000</u>

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 10. LOSS ON REDEMPTION - continued

	<u>1997</u>	<u>1996</u>
Single Family VI		
October 1	\$1,005,000	\$690,000
April 1	<u>1,105,000</u>	<u>520,000</u>
	<u>2,110,000</u>	<u>1,210,000</u>
Single Family VII		
October 1	\$1,340,000	\$1,020,000
April 1	<u>720,000</u>	<u>750,000</u>
	<u>2,060,000</u>	<u>1,770,000</u>
Single Family VIII		
October 1	\$1,030,000	\$1,150,000
April 1	<u>800,000</u>	<u>610,000</u>
	<u>1,830,000</u>	<u>1,760,000</u>
Single Family IX		
October 1	\$715,000	\$1,265,000
April 1	<u>590,000</u>	<u>910,000</u>
	<u>1,305,000</u>	<u>2,175,000</u>
Single Family X		
October 1	\$770,000	\$1,080,000
April 1	<u>525,000</u>	<u>940,000</u>
	<u>1,295,000</u>	<u>2,020,000</u>
Total	<u>\$42,168,938</u>	<u>\$26,524,793</u>

All such Bonds were redeemed at par or 100% of their compounded value to date of redemption. Unamortized discounts and cost of issuance associated with the bonds redeemed were expended at time of redemption and are reported as losses on redemption of \$439,637 and \$316,550 in 1997 and 1996 respectively.

NOTE 11. COMMITMENTS AND CONTINGENCIES

The Board has reserved and is in the process of purchasing Single Family Mortgages of approximately \$71,550 from the issuance of the 1995 Series B Bonds and \$17,716,920 from the issuance of the 1996A bonds.

The Board has committed to purchase Single Family Mortgages as noted below:

HUD Section 184-Indian Housing	\$759,194
Glacier Affordable Housing Program	1,741,923
City of Billings	2,700,000
City of Billings (203k)	388,706
Butte-Silverbow	1,578,000
District XI Human Resources	1,867,630
City of Kalispell	2,686,000
Neighborhood Housing Services	2,004,494
Ronan Housing Authority	1,052,300
Rural Housing Loan Leveraging Program	1,899,630
Cash Assistance Program	2,032,930
City of Laurel	750,000
Richland County	152,230
Cash Assistance-Special Reserve Fund	100,000
Disabled Affordable Accessible Homeownership Program	<u>1,642,411</u>
Total Single Family commitments	<u>21,355,448</u>

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

The Board has committed to purchase Multifamily Mortgages as noted below:

Financing Adjustment Factor Subsidy Setaside (restricted by agreement with HUD)	168,000
River House Apartments	250,000
Pond Row Apartments	267,596
Parkside Apartments	612,000
Total Multifamily commitments	<u>\$1,297,596</u>

The Board has committed Housing Trust Funds as noted below:

Home buyers Cash Assistance Program-Disabled	\$22,243
Cash Assistance Program-VI	22,227
Reverse Annuity Mortgage Program	<u>1,145,564</u>
Total Housing Trust Fund commitments	<u>1,190,034</u>

These mortgage commitments will be funded through cash and investments.

During the ordinary course of business, the Board incurs expenses under various cancelable leases for rental of equipment and maintenance contracts.

NOTE 12. EMPLOYEE BENEFIT PLANS

The Board of Housing participates in the Public Employees' Retirement System plan. The plan is a state-wide, cost-sharing multiple employer defined benefit retirement plan which covers all employees. Part-time employees have an option to belong to the retirement plan, depending upon hours worked. The plan is established under State law and is administered by the State of Montana. The plan provides retirement, disability and death benefits to plan members and beneficiaries.

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Public Employees Retirement Division
P.O. Box 200131
1712 Ninth Avenue
Helena, MT 59620-0131
406-444-3154

Contributions rates for the plan are required and determined by State law. The contribution rates for 1997 expressed as a percentage of covered payroll are as follows:

<u>Employee</u>	<u>Employer</u>	<u>Total</u>
6.70%	6.70%	13.40%

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 12. EMPLOYEE BENEFIT PLANS-Continued

The amounts contributed to the plan during the years ended June 30, 1995, 1996 and 1997 were equal to the required contribution each year. The amounts contributed by both the Board (including voluntary contributions by employees as permitted by State law) were as follows:

Fiscal Year	1995-	\$20,673
Fiscal Year	1996-	\$20,651
Fiscal Year	1997-	\$22,656

Deferred Compensation Plan: The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, Chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance is required by January 1, 1999.

NOTE 13. CONTINGENT ARBITRAGE REBATE TAX LIABILITY PAYABLE TO U.S. TREASURY DEPARTMENT

The Board has established an accrual for the contingent liability for estimated arbitrage payments due to the Treasury Department in accordance with the Internal Revenue Code. The amount of the rebate in general terms is the difference between the actual interest earned on investments and "allowable" interest as defined by Treasury Department Regulations. Ninety percent of the estimated rebate will be paid to the United States Treasury within 60 days of the end of every fifth bond year until the bonds are retired, at which time 100% of the remaining rebate amount is due.

Cash paid in arbitrage rebate taxes to the U.S. Treasury Department was \$0 and \$206,037 for fiscal years ending June 30, 1997 and 1996, respectively. The liabilities are \$86,263 and \$37,977 as of June 30, 1997 and 1996, respectively.

NOTE 14. SUBSEQUENT EVENTS

On July 3, 1997 the board redeemed all of the 1977A, 1977B, 1978A, 1987A and 1987B Single Family Bonds. This resulted in the refunding of the Single Family I Indenture, dated March 10, 1977, in its entirety. Refunding bonds in the amount of \$31,360,000 and additional bonds in the amount of \$60,000,000 were issued on June 4, 1997, under an amended and restated Single Family I Indenture, dated May 1, 1997. As of June 30, 1997, the money to redeem the refunded bonds was in an escrow account. The amount in the escrow account and the refunded bonds are not included in the June 30, 1997 balance sheet.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 15. REFUNDING AND DEFERRED BOND ISSUANCE COSTS

During fiscal year 1997, the Board issued \$91,360,000 in new debt. Series 1997A was issued on June 4, 1997. The 1997A issue refunded the 1977A, 1977B, 1978A, 1987A and 1987B bond issues. On July 3, 1997, the board redeemed all bonds outstanding in the refunded series. These series had a total of \$31,360,000 in bonds outstanding on the date of redemption.

As required by Governmental Accounting Standards Board (GASB), Statement Number 23, the Board has deferred the costs related to the refundings of the 1997 Series A.

Under GASB 23, the deferred costs are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds.

The following costs associated with the 1977A, 1977B, 1978A, 1987A & 1987B were deferred and are being amortized under the GASB 23 guidelines:

<u>Refunding</u>	
Cost of Issuance related to refunded bonds	456,061
Premium paid bonds	357,100
Bond discount on the refunded bonds	1,347
Gain on sale of investments related to refunded bonds	<u>(796,913)</u>
Total Deferred refunding costs	17,595
Unamortized Deferred refunding Costs from prior year refundings	<u>(745,946)</u>
Total unamortized	<u>(728,351)</u>

The refunding resulted in an economic gain of \$1,609,593 and a difference in cash flows of \$(41,909,140). The issue is at a lower interest rate, but a negative cash flow resulted because the debt payments of the refunding debt were extended for 21 years beyond debt payment of the refunded debt.

NOTE 16. RELATED PARTY TRANSACTIONS

Employees, officers and stockholders of certain approved originator and servicing financial institutions of the Board also serve as directors of the Board of Housing.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1997 and 1996**

NOTE 17. FISCAL YEAR 1996 RESTATEMENTS

The Board implemented GASB 28 during fiscal year 1997. The 1996 combined totals on the Balance Sheet have been restated to include \$56,097 for Cash collateral for Securities Lending, under assets, and the same amount as a liability, under Collateral for Securities Lending.

During Fiscal year 1996, the net fees from securities lending transactions were recorded in investment income. GASB 28 requires that all securities lending income and the related expense be shown, separately, on the financial statement. As a result, the following restatements were made to the 1996 Combined Income Statement totals. Interest income on investments was reduced by \$30, which was the net fee that was received by the Board. Securities lending income of \$975 was recorded and Securities lending expense of \$945 was recorded.

**MONTANA BOARD OF HOUSING,
ENTERPRISE FUND
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 1997**

	Single Family I	Single Family II	Single Family III	Single Family IV
ASSETS				
Cash and cash equivalents	1,240,032	339,760	14,729	17,930
Investments	73,612,476	90,468,797	1,611,849	1,455,843
Mortgage loans receivable	40,043,448	273,049,502	7,557,774	8,173,441
Interest receivable--Investments	434,010	1,388,501	23,701	26,074
Interest receivable-Mortgages	300,033	1,799,289	68,656	68,465
Deferred bond issuance costs, net	1,076,957	3,408,408	102,300	125,466
Fixed assets	20,109	66,849	-	-
Prepaid expense	19,384	16,075	-	-
Accounts receivable	-	849	-	-
Cash Collateral for Securities Lending	1,317	6,915	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>116,747,766</u>	<u>370,544,945</u>	<u>9,379,009</u>	<u>9,867,219</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	36,594	184,710	6,226	6,266
Premium on bonds payable	357,100	-	-	-
Cost of Issuance Payable	139,041	-	-	-
Accrued interest bonds payable	1,393,536	1,453,347	171,599	192,316
Bonds payable, net	91,360,000	311,622,181	8,790,000	9,455,000
Deferred refunding costs	(17,595)	745,946	-	-
Arbitrage tax payable to U.S. Treasury Department	-	42,128	-	12,687
Accrued compensated absences	12,060	24,382	-	-
Collateral for Securities Lending	1,317	6,915	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>93,282,053</u>	<u>314,079,609</u>	<u>8,967,825</u>	<u>9,666,269</u>
RETAINED EARNINGS:				
Reserved Retained Earnings- Pledged to Bondholders				
Single Family Programs	17,752,079	40,823,522	411,184	200,950
Various Recycled Mortgage Programs	5,713,635	15,641,813	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Retained Earnings	<u>23,465,714</u>	<u>56,465,335</u>	<u>411,184</u>	<u>200,950</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Retained Earnings	<u>116,747,767</u>	<u>370,544,944</u>	<u>9,379,009</u>	<u>9,867,219</u>

**MONTANA BOARD OF HOUSING,
ENTERPRISE FUND
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 1997**

	Single Family V	Single Family VI	Single Family VII
<u>ASSETS</u>			
Cash and cash equivalents	20,950	18,342	15,507
Investments	1,746,805	1,823,840	1,813,133
Mortgage loans receivable	9,415,601	10,192,976	9,827,114
Interest receivable--Investments	29,213	27,652	29,343
Interest receivable-Mortgages	80,455	84,156	80,997
Deferred bond issuance costs, net	139,224	149,513	138,778
Fixed assets	-	-	-
Prepaid expense	-	-	-
Accounts receivable	-	-	-
Cash Collateral for Securities Lending	-	-	-
Total assets	<u>11,432,248</u>	<u>12,296,479</u>	<u>11,904,872</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	7,689	7,463	7,039
Premium on bonds payable	-	-	-
Cost of Issuance Payable	-	-	-
Accrued interest bonds payable	210,583	226,439	222,633
Bonds payable, net	10,930,000	11,790,000	11,370,000
Deferred refunding costs	-	-	-
Arbitrage tax payable to U.S. Treasury Department	13,990	17,458	-
Accrued compensated absences	-	-	-
Collateral for Securities Lending	-	-	-
Total liabilities	<u>11,162,262</u>	<u>12,041,360</u>	<u>11,599,672</u>
<u>RETAINED EARNINGS:</u>			
Reserved Retained Earnings-			
Pledged to Bondholders			
Single Family Programs	269,986	255,119	305,200
Various Recycled Mortgage Programs			
Total Retained Earnings	<u>269,986</u>	<u>255,119</u>	<u>305,200</u>
Total Liabilities and Retained Earnings	<u>11,432,248</u>	<u>12,296,479</u>	<u>11,904,872</u>

**MONTANA BOARD OF HOUSING,
ENTERPRISE FUND
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 1997**

	Single Family VIII	Single Family IX	Single Family X	Combined totals
ASSETS				
Cash and cash equivalents	20,210	20,264	58,856	1,766,580
Investments	2,428,296	2,218,574	2,219,416	179,399,029
Mortgage loans receivable	12,292,199	13,057,671	14,399,572	398,009,298
Interest receivable-Investments	33,738	35,205	32,227	2,059,664
Interest receivable-Mortgages	93,983	97,981	98,030	2,772,045
Deferred bond issuance costs, net	189,215	190,215	217,616	5,737,692
Fixed assets	-	-	-	86,958
Prepaid expense	-	-	-	35,459
Accounts receivable	-	-	-	849
Cash Collateral for Securities Lending	-	-	-	8,232
Total assets	<u>15,057,641</u>	<u>15,619,910</u>	<u>17,025,717</u>	<u>589,875,806</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	10,896	8,911	12,172	287,966
Premium on bonds payable	-	-	-	357,100
Cost of Issuance Payable	-	-	-	139,041
Accrued interest bonds payable	262,769	273,206	280,023	4,686,451
Bonds payable, net	14,485,000	15,110,000	16,745,000	501,657,181
Deferred refunding costs	-	-	-	728,351
Arbitrage tax payable to U.S. Treasury Department	-	-	-	86,263
Accrued compensated absences	-	-	-	36,442
Collateral for Securities Lending	-	-	-	8,232
Total liabilities	<u>14,758,665</u>	<u>15,392,117</u>	<u>17,037,195</u>	<u>507,987,027</u>
RETAINED EARNINGS:				
Reserved Retained Earnings-				
Pledged to Bondholders				
Single Family Programs	298,976	227,793	(11,478)	60,533,331
Various Recycled Mortgage Programs				21,355,448
Total Retained Earnings	<u>298,976</u>	<u>227,793</u>	<u>(11,478)</u>	<u>81,888,779</u>
Total Liabilities and Retained Earnings	<u>15,057,641</u>	<u>15,619,910</u>	<u>17,025,717</u>	<u>589,875,806</u>

**MONTANA BOARD OF HOUSING,
ENTREPRISE FUND
SINGLE FAMILY COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
JUNE 30, 1997**

	Single Family I	Single Family II	Single Family III	Single Family IV
REVENUES:				
Interest Income-mortgage loans	3,307,280	17,421,240	748,151	805,879
Interest Income-Investments	1,609,833	6,848,780	130,545	141,527
Fee income	-	77,382	-	-
Gain (loss) on sale of investments	164,964	(72)	-	-
Other income	-	30	-	-
Securities Lending Income	-	1,388	-	-
Total revenues	<u>5,082,057</u>	<u>24,348,726</u>	<u>878,696</u>	<u>947,206</u>
EXPENSES:				
Interest on bonds	2,964,094	20,124,031	750,169	831,268
Servicer fees	159,368	908,831	32,263	33,840
Amortization of bond issuance costs	122,978	269,430	7,725	8,968
General and administrative	259,947	872,113	7,670	8,225
Securities Lending Expense	-	1,312	-	-
Arbitrage rebate tax	-	28,040	-	5,838
Loss on redemption	206,943	62,815	20,524	19,877
Total expenses	<u>3,713,328</u>	<u>22,066,572</u>	<u>818,351</u>	<u>907,812</u>
Net income operating income (loss) before operating transfers	1,368,729	2,280,154	58,345	39,394
Operating transfers in (out)		(70,000)		
Net income (loss)	1,368,729	2,210,154	58,345	39,394
Retained Earnings, beginning of year:				
Reserved Retained Earnings-Pledged to Bondholders	<u>22,096,985</u>	<u>54,255,181</u>	<u>352,839</u>	<u>161,556</u>
Retained Earnings, end of year:				
Reserved Retained Earnings-Pledged to Bondholders	<u>23,465,714</u>	<u>56,465,335</u>	<u>411,184</u>	<u>200,950</u>

**MONTANA BOARD OF HOUSING,
ENTEPRISE FUND
SINGLE FAMILY COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
JUNE 30, 1997**

	Single Family V	Single Family VI	Single Family VII
REVENUES:			
Interest Income-mortgage loans	880,287	948,454	932,321
Interest Income-Investments	148,945	176,261	168,227
Fee income	-	-	-
Gain (loss) on sale of investments	-	-	-
Other income	-	-	-
Securities Lending Income	-	-	-
	<hr/>	<hr/>	<hr/>
Total revenues	<u>1,029,232</u>	<u>1,124,715</u>	<u>1,100,548</u>
EXPENSES:			
Interest on bonds	903,060	998,298	968,503
Servicer fees	39,087	42,508	40,740
Amortization of bond issuance costs	8,995	9,620	9,447
General and administrative	11,726	13,004	12,371
Securities Lending Expense	-	-	-
Arbitrage rebate tax	6,477	7,929	-
Loss on redemption	18,976	27,078	25,593
	<hr/>	<hr/>	<hr/>
Total expenses	<u>988,321</u>	<u>1,098,437</u>	<u>1,056,654</u>
Net income operating income (loss) before operating transfers	40,911	26,278	43,894
Operating transfers in (out)			
Net income (loss)	40,911	26,278	43,894
Retained Earnings, beginning of year:			
Reserved Retained Earnings-Pledged to Bondholders	<u>229,075</u>	<u>228,841</u>	<u>261,306</u>
Retained Earnings, end of year:			
Reserved Retained Earnings-Pledged to Bondholders	<u>269,986</u>	<u>255,119</u>	<u>305,200</u>

**MONTANA BOARD OF HOUSING,
ENTREPRISE FUND
SINGLE FAMILY COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
JUNE 30, 1997**

	Single Family VIII	Single Family IX	Single Family X	Combined totals
REVENUES:				
Interest Income-mortgage loans	1,097,339	1,126,952	1,136,576	28,402,259
Interest Income-Investments	175,855	169,195	155,949	9,723,117
Fee income	-	-	-	77,362
Gain (loss) on sale of investments	-	-	-	164,892
Other income	-	-	-	30
Securities Lending Income	-	-	-	1,386
Total revenues	<u>1,273,194</u>	<u>1,296,147</u>	<u>1,292,525</u>	<u>38,369,046</u>
EXPENSES:				
Interest on bonds	1,123,141	1,146,642	1,165,996	30,975,200
Servicer fees	50,900	52,776	57,159	1,417,470
Amortization of bond issuance costs	11,935	12,207	13,080	474,383
General and administrative	15,511	12,404	10,712	1,023,683
Securities Lending Expense	-	-	-	1,312
Arbitrage rebate tax	-	-	-	48,284
Loss on redemption	24,224	16,697	17,110	439,637
Total expenses	<u>1,225,711</u>	<u>1,240,726</u>	<u>1,264,057</u>	<u>34,379,969</u>
Net income operating income (loss) before operating transfers	47,483	55,421	28,468	3,989,077
Operating transfers in (out)				(70,000)
Net income (loss)	47,483	55,421	28,468	3,919,077
Retained Earnings, beginning of year:				
Reserved Retained Earnings-Pledged to Bondholders	<u>251,493</u>	<u>172,372</u>	<u>(39,946)</u>	<u>77,969,702</u>
Retained Earnings, end of year:				
Reserved Retained Earnings-Pledged to Bondholders	<u>298,976</u>	<u>227,793</u>	<u>(11,478)</u>	<u>81,888,779</u>

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